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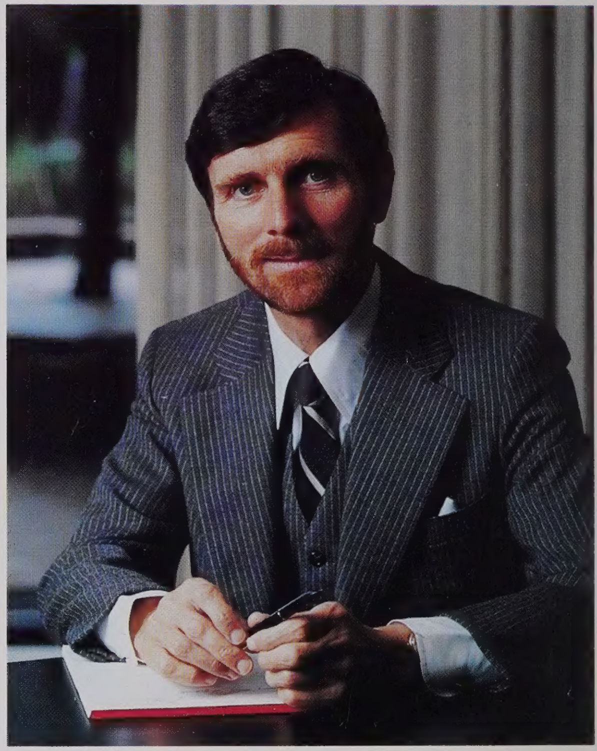
Monarch Investments Limited 1978

57th Annual Report To Our Shareholders



We have pleasure in presenting to our shareholders the annual results for the year ended December 31, 1978, and the audited financial statements reported upon by Peat, Marwick, Mitchell & Co. These include, as usual, a consolidated balance sheet, consolidated statement of earnings and retained earnings and consolidated statement of changes in financial position.

Financial Statements

In 1978 the earnings before depreciation, income taxes and minority interest amount to $4,671,000. The net earnings for the year, after taxes and deduction of the minority interest, amount to $2,212,000 compared with $2,403,000 in 1977. Turnover rose from $27,589,000 to $32,177,000 as a result of increased house sales. Total assets have now attained a book level of $78,031,000.

During the year, in order to expand the capital base of the company, the Board of Directors decided to undertake a Rights Issue whereby shareholders could acquire additional common shares of the Corporation. It was an outstanding success with 99.78% of the shares being subscribed for, being an increase of 374,105 shares. The Rights Issue, combined with warrants and options exercised earlier in the year and reported on in our last annual statement resulted in an increase in the issued share capital of $3,870,524 and brings the total number of shares issued by the company to 2,618,735.

Front Cover

MONARCHS' CONCERN FOR THE ENVIRONMENT

Autumn scene in Highland West showing part of the mature woodlands deeded by Monarch to the City of Kitchener for recreational use.

MONARCH INVESTMENTS LIMITED

INTERIM
REPORT
TO
SHAREHOLDERS

FOR SIX MONTHS ENDED
JUNE 30, 1978

MONARCH INVESTMENTS LIMITED,

HERON'S HILL,

2025 SHEPPARD AVENUE EAST,

WILLOWDALE, ONTARIO,

M2J 1V7

491-7440 AREA CODE 416

TO OUR SHAREHOLDERS

Net earnings before tax in the half year ended June 30, 1978, decreased to $1,623,000 from $1,839,000 in the same period in 1977 and earnings after tax declined to $817,000 from $925,000. Gross operating revenue increased from $11,384,000 to $13,293,000.

Housing

The decrease in earnings is primarily due to a more competitive housing market in Ontario. In the areas in which we operate, builders have excessive inventories and purchasers are cautious and very selective.

In Scarborough, the sale of Chartwell Homes is reasonably good although we were impeded earlier in the year in registering a new phase for Heron's Hill Homes which has resulted in a slow start for the year. The situation has now been corrected. A new line of lower priced homes in Westminster Park in London has done well and at Beechwood North in Waterloo our sales are slightly ahead of budget. The Quebec market remains depressed, whereas our Sarasota development of higher priced single family homes has shown substantial improvement. We have acquired another site in Sarasota on which we will be building medium priced condominium homes to diversify our product line and we have also taken title to our 240 acre parcel in Houston, Texas where planning is proceeding.

Industrial and Commercial Properties

The sales in all our shopping centres have been showing substantial increases and our vacancies are very low. Our refurbishing program at Terminal Towers, Hamilton, is continuing and the office vacancy level has been reduced. In Scarborough, we have commenced construction on Phase Two of Huntingwood Business Complex, but, generally, the industrial market remains quiet.

General

The recent issue of Rights to acquire additional Common Shares of the Corporation was an outstanding success with over 99% of shares being subscribed for. We have also completed arrangements for the additional term loan which was part of the total financial package of the Corporation. In our opinion, the second half of the year will see a continuation of the same market conditions with the overall economy growing at a relatively slow rate.

C.J. Parsons
President

August 14th, 1978

MONARCH INVESTMENTS LIMITED
and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS
Six Months Ended June 30, 1978
(with comparative figures for 1977)

Unaudited

	1978 ($000's)	1977 ($000's)
Gross operating revenue	$13,293	$11,384
Net earnings before the undernoted items:	$ 2,843	$ 2,893
Interest	981	833
Depreciation	239	221
Net earnings before income taxes and minority interest	$ 1,623	$ 1,839
Income taxes	775	882
Net earnings before minority interest	$ 848	$ 957
Minority interest	31	32
Net earnings	$ 817	$ 925
Net earnings per share	36c	44c

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Six Months Ended June 30, 1978
(with comparative figures for 1977)

Unaudited

	1978 ($000's)	1977 ($000's)
Cash provided:		
Funds from operations:		
Net earnings	$ 817	$ 925
Add items not affecting funds:		
Depreciation	239	221
Minority interest in earnings of subsidiary	31	32
Funds provided from operations	$ 1,087	$ 1,178
Issue of share capital	1,065	—
Land and development costs realized through sales	2,163	1,842
Long-term borrowings	1,498	—
Total cash provided	$ 5,813	$ 3,020
Cash used:		
Repayment of long-term debt	$ 1,726	$ 985
Expenditures on investment properties	281	401
Investment in land held for and under development	5,651	1,528
Increase in construction in progress	1,718	328
Decrease in income taxes payable	424	475
Decrease in accounts payable	498	877
Dividends paid	157	106
Net change in other assets and liabilities	163	1,448
	$10,618	$ 6,148
Decrease in cash	$ (4,805)	$(3,128)
Represented by:		
Cash less bank indebtedness:		
Beginning of period	$(1,585)	$(661)
End of period	(6,390)	(3,789)
	$(4,805)	$(3,128)
Funds provided from operations per share	48c	55c

HOUSING PROJECTS

Scarborough

Chartwell

Both our Heron's Hill Homes Division and Chartwell Homes Division had reasonably good years in spite of a shortage of lots earlier in the year caused by delays experienced in obtaining final registration of a plan of subdivision. Our homes cover a price range from $58,000 to $105,000 in order to provide a wide variety of choice to potential purchasers. The Place on the Park condominium project was completed during the year but has sold rather slowly, due to the excess inventory of unsold condominium housing in the Toronto marketplace. A highlight of the year was a ceremony at which the 1500th house built by Monarch's construction team in the Chartwell development was delivered to a new purchaser.

We are proceeding with the planning of our Chartwell North lands in the Milliken community of Scarborough which should come under development in the current year. Our present anticipations are that this development will provide housing in a slightly lower price range than the current phase of Chartwell.

Bridlewood

This was one of our first ventures into buying building lots from other land developers and has proven to be successful. We have completely sold out the first two groups of lots purchased and we have recently acquired another 50 lots for semi detached homes which will be available for sale in the Spring of 1979. This area of Scarborough, together with the Milliken area, is one of the most active housing markets in Metropolitan Toronto.

Dundas

We have proceeded further with our planning of the next phase of Spring Creek Valley, although at a slower rate than we anticipated. We now anticipate that we should be able to obtain consent to proceed with development in this very attractive area later in 1979.

Unionville

We are approaching the end of a long and arduous course which began in 1970, in getting this land under development. During the year we had our draft plan approved for the first phase of 316 lots, which we will be servicing this summer. The Unionville area is proving to be an excellent marketplace for good quality housing and is now becoming one of the most desirable communities close to Metro Toronto. Our land has the advantage of being near the existing Village of Unionville which has preserved its architectural heritage and has established community facilities for the new residents in our development.

Kitchener/Waterloo

Beechwood North

This project did well in the year, considering market conditions, and our original land holding has now been almost completely sold out. In view of the success of the project we have now acquired an adjacent subdivision of similar quality which will provide an on-going program into 1980.

Highland West

We anticipate that we will be able to service the first phase of 190 lots of this project in the Spring of this year. Whilst this phase has many attractive, heavily treed lots which will suit higher priced housing, it will be followed by a later phase which will provide more moderate priced accommodation.

Highland Gate

This small project is now underway and the construction of model homes has commenced. Our initial attempts at pre-selling, prior to showing our completed models, have been reasonably successful and we intend to build our "Highland" series of homes which will be priced in the $43,000 to $45,000 price range. These houses will be built in accordance with a zero lot line principle which will enable us to maintain relatively modest selling prices while retaining an architecturally pleasing streetscape.

Doon

The community plan of this project has now been approved by the Municipality. This is an environmentally sensitive tract of land which has required very careful and skilful planning. We are currently undertaking studies to determine the price range of housing product that the local market will require.

St. Catharines

We have made relatively good progress during the year on our St. Catharines land as the matter of urban boundaries has now been clarified. We should have a draft plan approved within 12 months time when we will determine whether or not the market will warrant opening up the area for servicing.

Burlington

It has been another year of waiting in Burlington as the Municipality has still not agreed to allow us to open up our residential lands for development. The Municipality's attitude has been one of slow growth but another developer has obtained a decision from the Ontario Municipal Board requiring the Municipality to release its lands and we are studying the effect of the decision upon our proposed development.

During the year we acquired a subdivision in Burlington called Maplewood Park, in which we are currently constructing model homes, which will be available for a sales program in early 1979. The houses are priced at approximately $85,000 and

1. *Condominium villas situated in The Meadows, Sarasota, Florida.*
2. *General Plan of Houston Lands acquired by Monarch for development of single family homes, featuring many waterfront lots.*
3. *Monarch's booth in the 1978 Toronto Home Show.*

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are strategically located in the downtown area close to shopping and other existing amenities. Maplewood Park is also near a proposed G.O. Station.

London

Westminster Park

We had a reasonable year in Westminster Park and introduced a lower cost product line in order to complement our higher priced models. Whilst this did result in achieving more volume, it was not as much as expected. A number of blocks of land, which were previously planned for condominium development, were subdivided to provide for freehold housing which has much more appeal locally.

Maylard Estates

This project did not progress as scheduled during the year because of protracted negotiations with adjoining land owners. It is, however, well located and should do reasonably well when it comes to the market next year.

Oakridge Meadows

The delays that we were encountering on this proposed development have now been overcome, which should enable us to release it for development in 1979. This project is planned for 245 lots which will provide for housing in a medium price range.

Quebec

Montreal

The Vaudreuil subdivision which was started a few months before the last Provincial election has not done well and for the time being we have curtailed our building activities in the area. On the other hand, we have received many more enquiries for those of our lots which are for sale at most moderate prices.

In Beaconsfield and Kirkland prices have risen enabling us to sell houses which we had previously rented as the leases mature. We were also able to conclude a substantial sale of serviced land in our Beacon Hill subdivision. Whilst the real estate market in Montreal has substantially improved in the last year, housing prices are still depressed.

Florida

Sarasota

Our building division in The Meadows project had a good year with a reasonable increase over 1977 in the number of sales of higher priced, single family homes. In order to broaden our product line and to utilise our available resources better, we have acquired additional land for condominium housing. Our first condominium project, called Heronmere, which consists of 60 units selling for approximately $53,000 each has had a good market reception. Single family homes cover a much wider price range from approximately $65,000 to $120,000. Further development of the Golf Course Club House and the dining rooms, together with additional community facilities should assist with sales this year.

Texas

Houston

In June your company closed the purchase of 238 acres of residential land in the City of Sugarlands in the Greater Houston area, Texas, and has opened an area office nearby. The lands were bought under a Joint Venture Agreement with Taylor Woodrow of Canada Limited whereby Monarch owns a two thirds interest in the project and also provides the management. This excellent piece of land which was previously a sugar plantation is well located in an expanding market area. As will be seen from the plan shown in this report, many of the lots have water frontage and the whole development is adjacent to the existing established City and to good class housing. The south west freeway also provides easy access to downtown Houston. Our overall plan has already received preliminary approval and we have final approval to proceed with the development of Phase I. Construction of two homes required for the fulfillment of servicing obligations is complete and full scale construction of houses should commence in the second half of 1979. Our current projection is that in the first phase of 250 lots we will produce housing of a medium to high quality which will sell in the range of $80,000 to $120,000.

INVESTMENT PROJECTS

Eglinton Square Shopping Centre, Scarborough

Sales in this Centre continued to grow and we were able to improve our tenant mix with a number of changes. There are no vacancies in the centre and we are currently examining recent proposals by the Borough of Scarborough which would permit us further development on the site.

Kipling Heights Shopping Centre, Etobicoke

This shopping centre had a moderately successful year, although there was a persistent vacancy in one store. The Dominion Store expanded its facilities and we are contemplating additional tenant changes to make the shopping centre more attractive.

Chartwell Shopping Centre, Agincourt

In spite of increased competition from new shopping centres in this suburban development, Chartwell Shopping Centre had a reasonably good year with no vacancies. We have not made a decision concerning the expansion of this shopping centre on the additional land for the time being.

42-48 Charles Street East, Toronto

There are no vacancies in this office building and it is showing a reasonable rate of return.

Heron's Hill, Willowdale
The first phase of this office building project continues to be not unsatisfactory. Proposals for the development of the second phase have been retarded due to plans of the Municipality to install a road which will bisect the property, severing Phase 1 from Phase 2. We are unlikely to proceed with development pending the resolution of these negotiations with the Municipality but this continues to be an excellent site for future development.

Apartments, Toronto
Like most apartment buildings in Metropolitan Toronto, our vacancies have remained low and with a reduced volume of construction forecast for the current year, this position is likely to be maintained. Rent control continues to impede the construction of more rental units.

Terminal Towers, Hamilton
In order to maintain the attractiveness of this project, a number of major changes have been undertaken in the shopping mall. These changes are now complete and retail sales showed a substantial increase in spite of the disruption caused by the construction. The apartments and Holiday Inn Hotel are both doing well, but the office tower has again shown increased vacancies after having leased well in the earlier part of the year.

INDUSTRIAL DEVELOPMENT

Scarborough
We were encouraged by the market response to our first multiple occupancy industrial building called Huntingwood Business Complex and therefore built a second phase of the project which was completed shortly before the year end. The second phase has leased well and we anticipate that both phases, totalling 90,000 square feet of space, will be completely occupied by mid-summer. The project was nominated for an architectural award during the year. Enquiries for new industrial development have been modest. Our other industrial warehouses and plants are all fully leased and maintained in good condition.

Burlington
We have resolved difficulties concerning the routing of the trunk sewer to our industrial lands. We anticipate having an approved and registered plan of subdivision in the early part of the year. The sewer, which is now in the process of being installed, will enable us to proceed with the marketing of this project later in 1979, subject to other conditions being satisfactory.

London
A number of problems arose with the Clarke Side Road industrial park development which have now been overcome and we anticipate installing services as soon as the winter is over. This will be a modestly priced industrial subdivision for which there should be a reasonable market.

GENERAL

The housing and development business continues to be extremely competitive and we in Canada are sharing the same problems as other countries in the Western world with unemployment, inflation and limited growth. While we are continuing to search for opportunities in Ontario, the market in the U.S. looks attractive with its strong growth potential, and the speed with which Municipalities are prepared to process plans and grant building permits, with resultant cost savings. A typical example is our Houston project which is now underway after nine months of work; it might well have taken three or four times that period of time to accomplish the same results in Canada. Consequently, here at home, we have confined our recent purchases to lots which are ready for relatively swift development and are curtailing our purchases of long term land. We are continuing to investigate other land opportunities in the United States as well as in Western Canada.

One of our prime concerns at the present time is the high cost of money which not only increases our construction and land development costs but also adversely affects the cash flow and confidence of many house purchasers. We cannot see how the Canadian economy can afford to sustain the present high levels of interest rates, although we all agree that our prime aim must be to cure inflation. A further restriction of Government expenditures is essential and it is heartening to see the efforts being made by the Province of Ontario to reduce its deficit. We wish that the Federal Government would do likewise. Two interesting and salutory pieces of legislation were enacted during the year. Firstly, the Land Speculation Tax Act in Ontario was repealed. This should make land available that was previously held off the market. Secondly, the deductibility for Federal income tax purposes of carrying costs on land was reintroduced. Whilst neither of these changes will, of themselves, bring about an immediate improvement in the market, they do indicate that the concerns of our industry are receiving some recognition by Government and this must be applauded.

Mr. Tom Ralph and Mr. John Saunders have resigned from the Board of Directors of the Company and we thank them for their excellent efforts on behalf of the group.

During the year under review, all members of our team have continued to make great efforts, and I take this opportunity of expressing, on behalf of the Board of Directors, thanks for the hard work performed. We would also like to thank our professional associates, suppliers, sub-contractors and bankers for having given us such excellent support.

TORONTO
March 1979

President

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1. *Luxury executive condominium residences in North Scarborough.*
2. *The 20,149 sq. ft. Head Office of Fritzsche Dodge & Olcott Canada Limited in Chartwell Industrial Park.*
3. *A symbol of good workmanship and quality materials.*
4. *Located in Chartwell this innovative steel component house was built by Monarch in co-operation with the Steel Company of Canada, Limited.*
5. *Chartwell Homes Sales Office and Sir Winston model line — one of three subdivisions providing quality housing in the Scarborough area.*

Consolidated Balance Sheet

December 31, 1978
with comparative figures for 1977

Assets	1978	1977
Cash and short-term deposits	$ —	$ 2,076,000
Accounts receivable	929,000	519,000
Income taxes recoverable	60,000	—
Mortgages and other secured receivables (note 2)	1,604,000	528,000
Inventory of land, development costs and construction in progress (note 3)	53,310,000	44,329,000
Investment properties:		
Buildings and equipment, at cost	25,891,000	25,179,000
Less accumulated depreciation	6,025,000	5,519,000
	19,866,000	19,660,000
Land, at cost	2,212,000	2,154,000
	22,078,000	21,814,000
Other assets	50,000	53,000
	$78,031,000	$69,319,000

On behalf of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1978	1977
Bank indebtedness — secured by assignment of amounts receivable	$ 1,218,000	$ 3,661,000
Accounts payable and accrued liabilities	4,398,000	4,403,000
Mortgage advances on construction	1,709,000	781,000
Income taxes payable	—	427,000
Deferred profits on land sales	765,000	—
Long-term debt:		
Mortgages payable (note 4)	25,054,000	26,704,000
Other (note 5)	14,427,000	9,596,000
	39,481,000	36,300,000
Deferred income taxes	2,567,000	1,577,000
Minority interest	690,000	709,000
Shareholders' equity:		
Capital stock (note 6):		
Common shares without par value.		
Authorized 2,754,180 shares; issued 2,618,735 shares; (1977 — 2,121,230 shares)	7,691,000	3,821,000
General reserve	2,000,000	2,000,000
Retained earnings	17,512,000	15,640,000
	27,203,000	21,461,000
Contingent liabilities (note 7)		
	$78,031,000	$69,319,000

Auditors' Report to the Shareholder

We have examined the consolidated balance sheet of Monarch Investments Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the partially-owned subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 16, 1979

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1978
with comparative figures for 1977

	1978	1977
Revenues:		
Land development and construction	$25,108,000	$21,247,000
Investment properties	6,876,000	6,149,000
Interest and sundry	193,000	193,000
	32,177,000	27,589,000
Expenses:		
Cost of land and houses sold	20,299,000	16,006,000
Investment property operating expenses	3,094,000	2,639,000
Depreciation	482,000	460,000
Interest (note 9)	1,876,000	1,678,000
General and administrative expense	2,237,000	2,095,000
	27,988,000	22,878,000
Earnings before income taxes and minority interest	4,189,000	4,711,000
Income taxes — current	933,000	1,734,000
— deferred	990,000	528,000
	1,923,000	2,262,000
Earnings before minority interest	2,266,000	2,449,000
Minority interest in earnings of a subsidiary	54,000	46,000
Net earnings for the year	2,212,000	2,403,000
Retained earnings at beginning of year	15,640,000	13,492,000
	17,852,000	15,895,000
Dividends paid	340,000	255,000
Retained earnings at end of year	$17,512,000	$15,640,000
Earnings per share calculated on weighted average number of shares outstanding (note 6):		
Basic	$ .93	$ 1.13
Fully diluted	$ .93	$ 1.09

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1978
with comparative figures for 1977

	1978	1977
Financial resources provided:		
From operations	$ 4,503,000	$ 3,437,000
Land and development costs realized through sales	4,917,000	2,718,000
Decrease in construction in progress	—	155,000
Issue of capital stock	3,870,000	—
Long-term borrowings	7,813,000	270,000
Increase in mortgage advances on construction	928,000	—
Collection of mortgages receivable	250,000	608,000
Increase in accounts payable	—	582,000
Increase in income taxes payable	—	127,000
Net change in other assets and liabilities	—	359,000
Total financial resources provided	22,281,000	8,256,000
Financial resources used:		
Land held for and under development	11,337,000	5,279,000
Increase in construction in progress	2,561,000	—
Repayments of long-term debt	4,632,000	1,530,000
Decrease in mortgage advances on construction	—	362,000
Mortgages and other secured receivables	1,326,000	293,000
Expenditures on investment properties	746,000	1,461,000
Income taxes	487,000	—
Dividends paid	340,000	255,000
Net change in other assets and liabilities	485,000	—
Total financial resources used	21,914,000	9,180,000
Increase (decrease) in net bank indebtedness	$ 367,000	$ (924,000)
Represented by:		
Bank indebtedness less cash:		
Beginning of year	$ 1,585,000	$ 661,000
End of year	1,218,000	1,585,000
	$ 367,000	$ (924,000)
Financial resources provided from operations — per share, calculated on weighted average number of shares outstanding (note 6)	$ 1.89	$ 1.62

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1978

1. Accounting Policies:

The accounting policies of the company conform with accounting principles generally accepted in Canada. Details of significant accounting policies follow:

(a) The accounts of all the company's subsidiaries have been included and are as follows: Monarch Construction Limited, The Heronhill Corporation, Montrow Realty Limited, (all wholly-owned) and Monarch Property Developments Limited (partially-owned). All material intercompany balances and transactions have been eliminated upon consolidation. The accounts of joint ventures for land development have been consolidated in the financial statements on a proportionate line by line basis.

(b) Income on housing unit sales is recognized when the purchasers become entitled to occupancy. This represents a change in accounting policy with respect to sales of condominium housing from that of 1977 and prior years when income from such sales was recognized when title passed to purchasers. This change had an insignificant effect upon earnings for 1978.

(c) Income from sales of lots to builders is recognized only to the extent of the proportionate amount of cash received, after such receipts exceed 15% of the total sales price.

(d) Land, development costs and construction in progress are carried at the lower of cost and estimated realizable value. The companies add to the original cost of undeveloped land carrying charges including realty taxes, professional fees and mortgage interest. Carrying costs are reduced by rentals received on undeveloped land.

(e) Interest, other than that relating to development land, is charged to current operations.

(f) Investment properties are depreciated principally by the sinking fund method using a 5% rate by which the cost of the properties will be amortized over an estimated useful life of 40 years in amounts increasing year by year. Properties carried at an aggregate net book value of approximately $4,500,000 are depreciated using the straight-line method and at December 31, 1978 have remaining estimated useful lives averaging 17 years.

2. Mortgages and Other Secured Receivables:

These amounts bear interest at rates ranging from 6% to 13% with a weighted average rate of 10½% and are repayable in 1979 — $887,000; 1980 — $519,000; 1981 — $21,000; 1982 — $98,000; 1983 and later $79,000.

3. Inventory:

Land, development costs and construction in progress comprise the following:

	1978	1977
	(000 omitted)	
Construction in progress	**$ 7,431**	$ 4,870
Land under development, including development costs	**9,607**	5,902
Undeveloped land	**36,272**	33,557
	$53,310	$44,329

4. Mortgages Payable:

Mortgages payable bear interest at rates ranging from 6% to 13½% with a weighted average rate of 8¾% and are repayable as follows:

	Secured by		
	Investment properties	**Land held for development**	**Total**
		(000 omitted)	
1979	**$ 292**	**$ 3,971**	**$ 4,263**
1980	**272**	**5,127**	**5,399**
1981	**441**	**306**	**747**
1982	**324**	**1,338**	**1,662**
1983	**283**	**4,867**	**5,150**
1984 and later	**7,833**	**—**	**7,833**
	$ 9,445	**$15,609**	**$25,054**

5. Other Long-Term Debt:

	1978	1977
	(000 omitted)	
Of the Company:		
First Mortgage Bonds — 6¾% due October 1, 1979	**$ 72**	$ 124
Sinking Fund Debentures, Series A — 8% secured on shares of subsidiaries and by a floating charge on all other assets of the company; sinking fund payments of $125,000 annually required 1979 to 1992 with balance due February 1, 1993	**2,200**	2,375
Unsecured notes (including $2,000,000 in United States Funds) due in equal semi-annual instalments over a period of eight years; interest rates are variable throughout the duration of the loan and average 12½% on December 31, 1978	**3,372**	—

	1978	1977
Of subsidiaries:		
First Mortgage Bonds — repayable in equal monthly instalments combining principal and interest to 1998:		
Interest at 7%	**4,615**	4,726
Interest at 8%	**1,733**	1,771
Unsecured advance by an affiliated company — 6%. No specific terms of repayment except that the creditor has advised the company that repayment of these advances will not be required prior to January 1, 1980	**300**	600
Unsecured advance by an affiliated company — ($1,800,000 United States Funds) — 9% due December 31, 1982	**2,135**	—
	$14,427	$ 9,596

The amount shown above for Sinking Fund Debentures Series A, at December 31, 1978 is net of $175,000 (1977 — $125,000) principal amount of such debentures repurchased and available for application against future sinking fund requirements.

The aggregate scheduled repayments required with respect to the above long-term debt amount to $779,000 in 1979; $719,000 in 1980; $732,000 in 1981; $2,880,000 in 1982; $760,000 in 1983 and $8,257,000 in 1984 and thereafter.

6. Capital Stock:

(a) During the year the company issued common shares as follows:

	Number of shares	Cash received
Issued pursuant to option agreements at $6.48 per share	18,200	$ 117,936
Issued pursuant to purchase warrants at $9.00 per share	105,200	946,800
Issued pursuant to a rights issue on the basis of 1 share for each six held at $7.50 per share	374,105	2,805,788
	497,505	$3,870,524

(b) At December 31, 1978, options covering 5,000 common shares were outstanding at $6.48 per share exercisable to 1980.

7. Contingent Liabilities:

The company and certain subsidiaries are contingently liable:
(a) in respect of first mortgages assumed by purchasers of properties sold, and
(b) in respect of joint venture obligations (almost entirely mortgages on land for development) approximating $2,250,000.

8. Litigation:

An action has been commenced against a subsidiary in which the plaintiff claims approximately $500,000 for an alleged breach of contract. The subsidiary's position is that there was no breach of contract and, on the advice of legal counsel, the action is being vigorously defended.

9. Interest Expense:

	1978	1977
	(000 omitted)	
On long-term debt	**$3,331**	$3,024
On other debt	**235**	100
	3,566	3,124
Charged to land held for development	**1,690**	1,446
	$1,876	$1,678

10. Joint Ventures:

The companies' share of the assets and liabilities of its joint ventures for land development (which have been accounted for on the proportionate line by line basis) is as follows:

	1978	1977
	(000 omitted)	
Undeveloped land	**$5,042**	$2,505
Mortgages payable	**(1,149)**	(1,318)
Other long-term debt	**(2,135)**	—
Net other liabilities	**(73)**	—
Equity in joint ventures	**$1,685**	$1,187

The companies' proportion of the revenues and expenses of the joint ventures is insignificant.

11. Supplementary Information:

The aggregate direct remuneration paid in 1978 to directors and senior officers of the company, as defined by The Business Corporations Act (Ontario), was $311,000 (1977 — $322,000).

12. Anti-inflation Controls:

The companies have been subject to the controls on prices, profit margins, compensation, and dividends to shareholders under the Federal Government's Anti-Inflation Program. The companies' residential rental properties are subject to the Ontario Residential Premises Rent Review Act which imposes restraints on certain rent increases. The companies believe that they have complied with both of these programs.

Monarch's Community Participation

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1. *Dr. & Mrs. John Allen & family, the 1,500th home purchaser in the prestigious Chartwell development in Scarborough.*
2. *Mr. Chris Mullin, Monarch's Marketing Manager, with the two winners of our colouring book competition from the Toronto Home Show.*
3. *The Chapman Homestead — now located on a permanent site at the Markham Museum, was officially turned over to Mr. John Lunau, Curator, by Mr. Bill Amis of Monarch in a ribbon cutting ceremony that took place on September 9, 1978.*
4. *Unionville Soccer Team.*
5. *Unionville Minor Softball Team.*
6. *Scarborough Baseball Team.*

(all sponsored by Monarch)

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Directors and Officers

C. J. Parsons, C.A.*
President

A. K. Leitch, D.F.C.*
Vice-President and Secretary

G. E. W. Winship*
Senior Vice-President

R. E. Aldred, F.I.Q.S., F.I.O.B.
Deputy Chairman, Taylor Woodrow Limited

G. Drummond Birks
President,
Henry Birks & Sons Limited

J. S. Farquharson, Q.C.
Partner, McMillan, Binch, Solicitors

G. E. Jackson
Senior Vice-President,
Reed Shaw Stenhouse Limited

D. F. Johnstone
Vice-President, Property Investments
The Standard Life Assurance Company

Sir Frank Taylor, D.Sc. (Hon), F.I.O.B.
Founder and Managing Director
Taylor Woodrow Limited

R. A. Wykes

D. R. Wilson, C.A
Treasurer

Solicitors
McMillan, Binch

Auditors
Peat, Marwick, Mitchell & Co.

Coopers and Lybrand

Bankers
The Toronto-Dominion Bank

Bank of Montreal

Transfer Agents
Canada Permanent Trust Company

Debenture Trustee
Royal Trust Company

Principal Operating Subsidiaries:
Monarch Construction Limited
Monarch Property Developments Limited
Montrow Realty Limited
The Heronhill Corporation, Texas, U.S.A.

A Member of the Worldwide
Taylor Woodrow Group
of Companies

*Executive Directors